(18)

No. 04-480

IN THE

Supreme Court of the United States

METRO-GOLDWYN-MAYER STUDIOS INC., *ET AL.*,
Petitioners,

v.

GROKSTER, LTD., *ET AL.*,
Respondents.

On Writ of Certiorari to the United States Court of Appeals for the Ninth Circuit

REPLY BRIEF FOR MOTION PICTURE STUDIO AND RECORDING COMPANY PETITIONERS

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REPLY BRIEF

Despite their efforts to distance themselves from the facts, Grokster and StreamCast cannot escape the reality that copyright infringement is their business. Indeed, respondents are so deeply complicit in the massive infringement on their services that they can offer no defense that relies on their own conduct or the character or use of their own services.

Instead, respondents ask the Court to read its decision in *Sony-Betamax* as immunizing any copying and distribution service that has hypothetical noninfringing uses, even if the *actual uses* of the service are overwhelmingly infringing. That would effectively abolish the law of secondary copyright liability, which the Register of Copyrights has described as "critical to the effective functioning of our copyright system, and even more so in the new digital environment." MGM Br. 22 (quoting Register); *see* U.S. Br. 12 (respondents' position "renders *Sony*'s recognition of contributory liability virtually a dead letter"). And Grokster and StreamCast propose to snuff out any remaining vestige of secondary liability by urging that even where, as here, a defendant has deliberately built up a business that encourages and supports massive infringement, judicial relief should be limited to a toothless injunction prohibiting only specific acts of inducement in the future.

Respondents thus seek repudiation of this Court's commitment in *Sony-Betamax* to a balance between effective protection of copyright and the pursuit of substantially unrelated commerce. Respondents and their *amici* insist that their one-sided approach is necessary to protect legitimate "innovation." Nonsense. Both creative *and* technological innovation have flourished under a secondary liability regime of orderly case-by-case decisionmaking that respects both sides of the balance. If adopted, respondents' approach would destroy that balance, and deepen the cynical contempt

for intellectual property and the rule of law that their conduct fosters. This Court should not follow that path.

I. Grokster's And StreamCast's Services Lack Commercially Significant Noninfringing Uses.

A. *Sony-Betamax* Does Not Protect Products with Speculative or Incidental Noninfringing Uses.

Quibbling only at the margins, Grokster and StreamCast concede that copyright infringement constitutes the "vast majority" of the actual use of their services.[1] They have no answer to petitioners' proof that the actual noninfringing uses of their services are trivial. *Compare* MGM Br. 36-37 & n.22 *with* Resp. Br. 21. Nor do they deny that they have known all along that their services are used primarily for infringement. Pet. App. 36a (district court opinion). They also admit the probative force of petitioners' evidence that there are readily available means to separate infringing and noninfringing uses. Resp. Br. 31 (conceding "genuine dispute"). And unlike the seller of the Betamax, they are deeply implicated in the massive infringement on their services. *Infra* at 6-8. These are plainly "circumstances in which it is just to hold one individual accountable for the [infringements] of another." *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 434-35 (1984).[2]

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[1] Respondents concede "that, today, 'the vast majority of the files are exchanged illegally.'" Resp. Br. 10 n.6 (quoting Ninth Circuit); *see* Pet. App. 8a (noting concession). Petitioners' evidence showed 75% of the content on the services was definitely infringing and another 15% likely infringing, while there is *no* evidence that the remaining 10% was noninfringing. MGM Br. 36-37; J.A. 439. On summary judgment, all permissible inferences must be drawn in favor of petitioners.

[2] Significantly, respondents do not even try to defend the Ninth Circuit's unprecedented and wholly impractical test for contributory infringement, which requires, for the first time, knowledge of each individual infringement at a time when defendants could prevent that specific infringement. *See* MGM Br. 38-42.

1. To escape liability, Grokster and StreamCast are forced to argue for an unyielding rule that immunizes the provider of any copying and distribution service that *could* be put to substantial noninfringing use, whether or not it is *actually* put to such use. The wholly one-sided nature of respondents' approach is shown by their application of it here. Unable to document more than trivial levels of actual noninfringing use of their services, respondents scrape together statements from copyright holders who have authorized free dissemination of their works over the Internet or peer-to-peer services *generally*, as well as speculation about how *others* might use peer-to-peer technology lawfully. Resp. Br. 21-22; *compare* MGM Br. 36-37 & n.22.[3] Grokster and StreamCast thus believe they are entitled to a free pass to continue their infringement-driven businesses as long as there is some tiny amount of noninfringing use by customers *or* as long as someone else – NASA, a university, or a legitimate service – could put peer-to-peer technology to substantial noninfringing uses.

Respondents' approach does not even pretend to strike a balance between "effective" protection of copyright and the pursuit of "substantially unrelated areas of commerce." 464 U.S. at 442. It throws copyright overboard to protect (and even encourage) illegitimate commerce that is parasitical on copyright owners' property. Indeed, in practice, respondents' rule will amount to absolute immunity. *Accord* U.S. Br. 12. It is always *possible* that some copyright holders would authorize copying and distribution of their works over any service. Because respondents' standard requires no particular level of actual noninfringing use, theoretical use (or at most incidental actual use) suffices.

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[3] The district court erroneously relied on the same evidence of general Internet use in making its purported "finding" (on summary judgment) of substantial noninfringing uses. *See* MGM Br. 36-37 n.22.

Recognizing that their approach has nothing to recommend it in its own right, respondents stake everything on the proposition that *Sony-Betamax* already set that approach in stone. But *Sony-Betamax* reserved the very question respondents insist it decided in their favor: "the question of how much use is commercially significant." 464 U.S. at 442. The standard was met in that case by time-shifting (both authorized and unauthorized), which was the Betamax's principal actual use. *Id. Sony-Betamax* did not decide whether something less would suffice.[4]

The Court declined to define the standard precisely, but made it plain that it has a quantitative focus – "how much use." *Id.* All three of the Court's formulations are so focused: "*widely used* for legitimate, unobjectionable purposes"; "capable of *substantial* noninfringing uses"; "capable of *commercially significant* noninfringing uses." *Id.* (emphasis added). Moreover, the Court did not speculate about the theoretical capability of the Betamax, but instead thoroughly analyzed the amount and character of its *actual* uses. *Id.* at 422-25; *see* U.S. Br. 10-15.

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[4] Thus, there is no merit to respondents' claim (Resp. Br. 19) that *Sony-Betamax* found that *authorized* time-shifting alone sufficed to preclude liability. The Court held that "one" use of the Betamax – time-shifting as a whole – was commercially significant. 464 U.S. at 442; *see id.* at 456. Respondents' contrary reading turns the Court's carefully considered holding that *unauthorized* time-shifting is fair use into mere dicta.

Respondents also quote the Court's statement in the context of authorized use that "the copyright holder may not prevail unless the relief that he seeks affects only his programs, or unless he speaks for virtually all copyright holders with an interest in the outcome." *Id.* at 446. But that does not help Grokster and StreamCast. Petitioners seek an injunction against infringement of *their* copyrights, which affects only them. And, in stark contrast to *Sony-Betamax*, this case was brought by all the major motion picture studios, record companies, and music publishers, plus a certified class of 27,000 songwriters.

Ignoring all that, Grokster and StreamCast seize on the single word "capable," treat it as the sum total of *Sony-Betamax*, and assert it dictates the result here. Their reading robs the Court's quantitative formulations of all meaning, and denigrates its careful consideration of the actual use of the Betamax. Any copying or distribution device that can be used for infringing purposes is necessarily capable of noninfringing use; if for no other reason than that some other copyright holders could authorize copying of their works. Respondents' reading would thus immunize virtually every such product or service, no matter how trivial the noninfringing uses. If the Court intended blanket immunity, it would have said so. It said the opposite, however, recognizing that adequate protection of copyright "require[s] the courts to look beyond actual duplication of a . . . publication to the products or activities that make such duplication possible." 464 U.S. at 442. The "capable" language in *Sony-Betamax* must be read to preserve the quantitative focus that pervades the decision. While the Court gave little guidance on what it meant by "capable" in this context, it might best be understood as referring to those situations in which a product or service has not yet been brought to market at all – and thus is not in wide use for *any* purpose. In that narrow set of circumstances, it may be appropriate to consider whether the product *will* be *widely* put to such use when introduced. *Cf.* U.S. Br. 18-21. That does not eliminate the requirement of *quantitative proof*, and does not allow the defendant to hide behind the "capabilities" of a genre of products.

2. Although *Sony-Betamax* did not state precisely how much noninfringing use a defendant must show to escape liability, the principles set forth in that decision plainly require liability where, as here, it is conceded that the vast majority of the use of a defendant's service is for infringement. Indeed, this is the easy case, and *petitioners*

are entitled to summary judgment. Absolving Grokster and StreamCast of liability would deny copyright any protection against unscrupulous expropriators who inflict massive harm and make millions by facilitating infringing activity. And because the vast majority of actual use is infringing, respondents cannot be said to be pursuing "substantially unrelated areas of commerce." 464 U.S. at 442. Rather, they are in the parasitical business of infringing copyrights. Whatever minimal value speculative or incidental noninfringing uses might have in this situation does not come close to outweighing the harm of massive infringement. By requiring "wide[] use[] for legitimate unobjectionable purposes," *id.*, *Sony-Betamax* made clear that legitimate activities must be the driving force behind a defendant's business, not a byproduct of infringement.

Thus, the level of infringing use conceded here, by itself, defeats respondents' *Sony-Betamax* defense. But additional factors make this case even easier. In vivid contrast to the one-time sale in *Sony-Betamax* to which the staple article defense paradigmatically applied, Grokster and StreamCast have ongoing service and network relationships that directly implicate them in their users' infringement. Respondents' disingenuous insistence that they only "supply users a piece of software" for "self-forming communit[ies]," Resp. Br. 4, is just another attempt to achieve "plausible deniability."

Respondents' software does not allow groups of users to form their own distinctive network communities. Grokster's software connects users to only one network (the "FastTrack" network), and StreamCast's software connects users to another (the "Gnutella" network). *See id.* at 6; J.A. 251-52. The vast majority of the material available on *these* networks is and always has been unauthorized copyrighted music and movies. Thus, while different peer-to-peer software might be used to form different networks for legitimate purposes (such as a network of scientists interested in exchanging data), the

"piece of software" supplied by Grokster or StreamCast cannot do that. It *only* allows access to specific networks that link like-minded infringers and the popular media files they unlawfully supply. Indeed, the search functions of respondents' software are tailor-made for finding and exchanging infringing media files, and the software blocks anti-infringement tools like spoofs.[5]

Beyond distributing their "piece of software," Grokster and StreamCast are actively involved in the maintenance and expansion of their networks. Respondents' own license agreements describe their enterprises as ongoing services; prescribe rules governing user behavior; and reserve the right to cut off user access. J.A. 338-55, 999-1014. Respondents maintain and upgrade their network software to improve its performance, knowing full well that the networks are devoted to copyright infringement. MGM Br. 5-6. And they continue to make their software available to new users by the millions. Because the only use of respondents' "product" is to allow users to join networks already devoted to infringement, respondents know to a moral certainty that virtually every new user joining the networks is doing so for the same illegitimate purpose. Turning a blind eye to this fact in no way reduces this certainty. Finally, respondents continue to pump advertising directly to their users to profit from the activity taking place. Thus, respondents' hotly disputed contention (*see id.* at 40 n.24) that their networks would continue operating even if they did nothing is

[5] Respondent's software searches only for limited data relating to media files, such as the title, artist name, and album name for audio files. Resp. Br. 2 n.1. It is thus tailored to help users find popular copyrighted works they already can identify by title or artist, or by genre (including "Top 40," which refers only to unauthorized popular music). MGM Br. 5. The software is not useful for finding unknown works or researching a diverse range of areas of interest because, among other things, it does not provide for full text searching of files.

irrelevant. Respondents are not "doing nothing." They continue to facilitate systemic infringement on their networks every day.

3. Although contributory infringement is particularly clear here, liability should not be limited to situations like this one, where infringement constitutes the "vast majority" of the use of a product or service. Rather, a defendant should be liable whenever infringement is the principal or primary use. *Id.* at 30-32. Where the primary use is infringement, the defendant is fairly said to be in the business of infringement, not "substantially unrelated" commerce. Holding the purveyor of such an infringement-driven service responsible forces that business to internalize the costs of infringement and is consistent with traditional tort and copyright principles placing liability on gatekeepers who can most effectively stop infringement. *Id.* at 22-23; Pet. 16. Liability should also follow where a defendant's product or service materially contributes to significant infringement and the defendant can readily separate infringing and noninfringing uses. MGM Br. 32-34. *Sony-Betamax*'s concern about monopoly leveraging, 464 U.S. at 440-41, is not present when separation is readily available at a reasonable cost. *In re Aimster Copyright Litig.*, 334 F.3d 643, 653 (7th Cir. 2003). *Sony-Betamax* supports, rather than forecloses, liability in those circumstances.[6]

More difficult questions may arise when the proportion of noninfringing use increases. *See* Resp. Br. 23. But that cannot justify the blanket immunity respondents propose. As the United States demonstrates, close cases are properly resolved by reference to factors such as how the product is marketed, how efficient the product is for noninfringing uses,

[6] Respondents' argument that *Sony-Betamax* implicitly rejected consideration of separation fails to acknowledge, much less respond to, petitioners' refutation of that reading. *See* MGM Br. 33-34 & n.21.

and what steps the seller has taken to eliminate or discourage infringing uses. *See* U.S. Br. 18-21. That more nuanced approach strikes a balance and accommodates the interests identified in *Sony-Betamax*. *See also infra* at 11-13.

4. Finally, respondents err in contending that patent standards should control here. *Sony-Betamax* did not import patent law wholesale into copyright. Because there are "substantial differences" between the two areas of law, the Court "exercise[d] the caution which we have expressed in the past in applying doctrine formulated in one area to the other." 464 U.S. at 439 n.19. It therefore drew on patent law only by "analogy," *id.* at 439, and carefully avoided verbatim adoption of the formulation set forth in 35 U.S.C. § 271(c).

The Court's decision to adapt rather than adopt the patent standard was well considered, because *different* contributory infringement thresholds are needed in copyright and patent law to strike the *same* balance between protecting intellectual property and giving free latitude to unrelated areas of commerce. The difference largely flows from the fact that in the patent context a product or device used in contributory infringement typically affects only one patent, whereas a copying product or service can be used to infringe essentially all copyrights in the relevant medium.

When a product is found to be a nonstaple article of commerce in patent law, it falls within the effective monopoly of a single patentee. The patentee thus can "sell [the] nonstaple article himself while enjoining others from marketing that same good without his authorization." *Dawson Chem. Co. v. Rohm & Haas Co.*, 448 U.S. 176, 201 (1980); *see Sony-Betamax*, 464 U.S. at 440-41. Conversely, when a product used to infringe a patent is found to be a staple article of commerce (and thus not subject to a contributory infringement claim), that finding impairs only a single patent. Thus, striking the right balance in patent law

favors giving staple article status to products with comparatively few noninfringing uses. That approach confines the ability of patentees to extend the scope of their patents, without undermining protection of patents generally.

In copyright, the analysis differs sharply. Because copying and distribution services can rapidly infringe massive numbers of copyrights, classifying a service as a staple article (thus entitled to the defense) undermines the enforceability of entire classes of copyrights, threatening the very incentive structure on which copyright is premised. Conversely, precisely because numerous copyright holders are affected by any copying product or service, the risk that any one copyright owner will be able to extend the scope of the statutory monopoly is greatly diminished.[7] The right balance in copyright law thus requires a much higher showing of noninfringing use than is required in the patent context to ensure effective protection. Placing the two bodies of law in lockstep and allowing the patent standard to control this case – or this case to control patent law – threatens serious distortion in both.

In all events, even if the patent standard applied directly here, it would not help respondents because it cannot be satisfied by speculation or trivial noninfringing uses. In patent, "the inquiry into what constitutes 'substantial' use is essentially a quantitative one" and "depends on how likely and often the use will occur." *Pickholtz v. Rainbow Techs., Inc.*, 260 F. Supp. 2d 980, 989 (N.D. Cal. 2003) (C. Breyer, J.) (quotation marks omitted) (surveying cases).

[7] As one copyright owner may not infringe or authorize infringement of copyrights owned by others, none may monopolistically exploit a nonstaple copying product or service while enjoining others from doing so. Nor can copyright holders form an economic cartel for that purpose. The threat of leveraging arose in *Sony-Betamax* because an injunction in favor of *two* copyright owners there more closely approached the paradigm of a single patentee's monopoly over nonstaple articles.

Respondents cannot cite a single patent case upholding a staple article defense where the vast majority of uses are infringing, much less where noninfringing uses are readily separable.[8]

B. The Balanced Approach of *Sony-Betamax* Does Not Threaten Legitimate Innovation.

Lacking a foundation in *Sony-Betamax* for their extreme position, respondents and their *amici* spend most of their time advancing the policy argument that a "bright-line" rule – their shorthand for complete immunity – is necessary to avoid chilling innovation. That argument fails at every level.

To begin with, respondents ignore the innovation interests on the other side of the balance, a remarkable omission given that encouraging content creation is the very purpose of copyright. *See Eldred v. Ashcroft*, 537 U.S. 186, 212 (2003). By immunizing gatekeepers who knowingly facilitate widespread infringement, respondents' approach fosters contempt for intellectual property and directly undermines copyright's system of economic incentives. *See id.* at 212 & n.18. Petitioners invest millions to develop and promote content, only to see the latest record or movie distributed on Grokster and StreamCast for free, often before public release. Respondents' approach thus threatens the

[8] The patent cases cited by respondents (Resp. Br. 28 n.16) certainly do not uphold the defense in these circumstances. In *Alloc, Inc. v. ITC*, 342 F.3d 1361 (Fed. Cir. 2003), the court "found *no evidence of direct infringement*, which is a prerequisite to indirect infringement." *Id.* at 1374 (emphasis added). And *C.R. Bard, Inc. v. Advanced Cardiovascular Systems, Inc.*, 911 F.2d 670 (Fed. Cir. 1990), held that a reasonable factfinder could find substantial noninfringing use because there was evidence that 40 to 60 percent of the product's actual uses were noninfringing. *Id.* at 674-75. Respondents also quote language from *Dawson*, 448 U.S. at 199 – "propanil is a nonstaple commodity which has no use except through practice of the patented method" – that describes the facts of that case, not a rule for every case.

artistic innovation that is central to our economic and cultural vitality. It threatens the software innovation that copyright promotes. And it obstructs innovators seeking to use digital technology for lawful distribution of copyrighted works over the Internet. *See* Bridgemar Br. 3-6; Napster Br. 8-11.

In this respect, respondents' position bears a striking resemblance to arguments this Court rejected in *Festo Corp. v. Shoketsu Kinzoka Kogyo Kabushiki Co.*, 535 U.S. 722 (2002), and *Warner-Jenkinson Co. v. Hilton Davis Chemical Co.*, 520 U.S. 17 (1997). In those cases, the judge-made doctrine of equivalents in patent law – which effectively extends the scope of a patent beyond its literal terms to include substantively "equivalent" devices – was challenged on the ground that it chills innovation by creating uncertainty about the scope of patents. *Festo*, 535 U.S. at 732. But the Court rejected a bright-line "rule of literalism," even though it would reduce uncertainty, because the unacceptable cost of the clear rule would be to leave the patentee at the mercy of unscrupulous copyists who could easily evade the patent grant, undermining the incentive for invention that is the very object of patent law. *See id.* at 731-32; *Warner-Jenkinson*, 520 U.S. at 34. The same calculus applies here.

Respondents also err in suggesting that innovators have relied on their reading of *Sony-Betamax* for two decades as a shield against potential copyright liability. Until this case, no one understood *Sony-Betamax* as stating the "bright-line" rule of immunity respondents advocate. In fact, courts have consistently required a context-sensitive analysis of the actual uses to which defendants put particular technologies. *See* U.S. Br. 15-21 (discussing cases); Songwriters Reply Br. 8. Courts enjoined infringement over other peer-to-peer services, which had exactly the same speculative capability for noninfringing uses that Grokster and StreamCast have. *A&M Records, Inc. v. Napster, Inc.*, 114 F. Supp. 2d 896 (N.D. Cal. 2000), *aff'd*, 239 F.3d 1004 (9th Cir. 2001); *In re*

Aimster Copyright Litig., 252 F. Supp. 2d 634 (N.D. Ill. 2002), *aff'd*, 334 F.3d 643 (7th Cir. 2003). Similarly, courts imposed liability on makers of equipment that enabled unlawful copying of video games, and on operators of Internet bulletin boards that allowed the posting and downloading of infringing works, even though both were capable of, and used for, some noninfringing activity.[9]

In reality, innovation has flourished under this balanced understanding of *Sony-Betamax*. Judicial decisions enjoining Napster and Aimster have not deterred the development of legitimate peer-to-peer networks. To the contrary, it is illegitimate services such as Grokster and StreamCast that obstruct lawful networks. MGM Br. 41-42. Nor is there any threat to the developers of CD burners, the iPod, or other innovative uses of digital technology. *Contra* Resp. Br. 25. All have thrived without "bright-line" immunity because these devices are, and were intended to be, widely used for legitimate unobjectionable purposes. Similarly, Internet service providers face no realistic risk of liability – and in all events Congress has provided them substantial "safe harbor" protections in the DMCA. 17 U.S.C. § 512. That the United States, representing both the Copyright Office and the Patent and Trademark Office, is supporting petitioners confirms that respondents' dire warnings are unfounded.

II. Grokster's And StreamCast's Active Encouragement And Assistance Of Infringement Is Before The Court.

Grokster and StreamCast do not dispute the evidence that they designed and marketed their services as engines of

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[9] *E.g.*, *Nintendo of Am. Inc. v. Computer & Entm't, Inc.*, 1996 U.S. Dist. LEXIS 20975 (D. Wash.); *Atari, Inc. v. JS&A Group, Inc.*, 597 F. Supp. 5 (N.D. Ill. 1983) (pre-*Sony-Betamax*); *Sega Enters. Ltd. v. MAPHIA*, 948 F. Supp. 923 (N.D. Cal. 1996); *see also A&M Records, Inc. v. Abdallah*, 948 F. Supp. 1449 (C.D. Cal. 1996) (imposing liability on seller of "time-loaded" audio tapes that were plainly capable of lawful taping).

infringement. That precludes summary judgment for them with respect to petitioners' active assistance argument. Nor do respondents dispute that *Sony-Betamax* provides no defense to active assistance. Instead, they attempt to evade the issue by contending it is outside the scope of the judgment on review.[10] That contention is baseless. The district court entered a partial final judgment rejecting *all* claims against respondents' current services. Pet. App. 27a-28a; Opp. Cert. App. 2a-4a; Pet. App. 4a. The court retained jurisdiction only over claims arising *solely* from "past versions . . . or from other past activities," where the only available relief is "damages." Pet. App. 28a. This Court thus has jurisdiction over any challenge to the current services.

Petitioners' active assistance argument is undoubtedly encompassed within their claim challenging respondents' current services. The development and operation of those services bears directly on whether their current services are lawful. Respondents designed services tailor-made for finding, copying, and distributing copyrighted media files; they included features to hinder copyright enforcement while omitting or disabling features that could limit infringing uses; they aggressively courted Napster's infringing users as the nucleus for expanding their networks of like-minded infringers, and then "migrated" those users and their infringing files to ever-evolving versions of the services; their business plans have always centered on maximizing the availability of infringing works, which they touted; they provided users with help in infringing specific works whenever users asked for it. MGM Br. 24-26. Their past acts are both the means by which respondents built their current services as networks of infringers, and evidence that

[10] The petition raised this theory, Pet. 19, 23-24, and respondents did not object; therefore, nonjurisdictional objections are waived. Sup. Ct. R. 15.2; *Oklahoma City v. Tuttle*, 471 U.S. 808, 816 (1985).

they deliberately set out to do so. They are thus within the scope of the judgment.

There is no basis for respondents' contention that the lawfulness of their current systems must be determined in serene isolation from the actions that created them. Resp. Br. 35-36. In *Sony-Betamax*, the "charge of contributory infringement [was] predicated *entirely* on the sale of an article of commerce that is used by the purchaser to infringe." 464 U.S. at 440 (emphasis added). *Sony-Betamax* thus did not rule out liability for a product or service where *additional* conduct shows the product or service was designed or marketed for infringing use. Liability in these circumstances accords not only with common sense, but also with the patent law to which *Sony-Betamax* analogized, where "the mere sale, *without more*, . . . will not establish liability for inducement," but "liability may still be established . . . if, *in addition to the sale of the product*, active steps are taken to encourage direct infringement." *Dynacore Holdings Corp. v. U.S. Philips Corp.*, 363 F.3d 1263, 1276 n.6 (Fed. Cir. 2004) (emphasis added).

Nor is there any basis for respondents' related contention that liability for active assistance can be predicated only on proof of targeted acts inducing specific infringements. Resp. Br. 35-36; Digital Media Ass'n Br. 19-20. Under that theory, a defendant could design a product or service for infringement, aggressively market it for that purpose, and profit from the intended infringement, but could not be held to account for the vast majority of the infringing uses that it brings about. Copyright owners would be left with only the toothless option of injunctive relief barring specific acts of inducement in the future, and would have no way to stop the massive ongoing infringement the defendant caused. Now that respondents' networks exist, enjoining only specific new acts of inducement while allowing the massive level of infringement to continue unabated would make a mockery of

effective relief. *See National Soc'y of Prof'l Eng'rs v. United States*, 435 U.S. 679, 698 (1978) (approving broad injunctive authority to "eliminat[e] the consequences of the unlawful conduct"). The Copyright Act's "potent" equitable remedies are not so limited. *Sony-Betamax*, 464 U.S. at 433; 17 U.S.C. § 502(a).

III. Respondents' Relationships With Their Users Render Them Vicariously Liable.

As with their other arguments, respondents' effort to avoid vicarious copyright liability departs from settled law and ignores the facts. Respondents contend first that vicarious liability is limited only to "acts of employees or other agents." Resp. Br. 39. For more than 75 years, however, courts have unanimously held that vicarious *copyright* liability extends beyond agency relationships. *E.g., Dreamland Ball Room, Inc. v. Shapiro, Bernstein & Co.*, 36 F.2d 354, 355 (7th Cir. 1929); *Shapiro, Bernstein & Co. v. H.L. Green Co.*, 316 F.2d 304, 307 (2d Cir. 1963). Respondents concede that Congress ratified that settled law in the 1976 Act. Resp. Br. 13; *see also* S. Rep. No. 94-473, at 141-42 (1975) (rejecting amendment that would have limited vicarious liability to agency relationships). Thus, the presumption elsewhere in the law that agency relationships define the bounds of vicarious liability does not apply in copyright. *See Meyer v. Holley*, 537 U.S. 280, 287, 290-91 (2003).

As the "dancehall" cases aptly show, vicarious copyright liability extends to infringement committed by third parties to whom the defendant has delegated the function of supplying copyrighted works to lure customers. MGM Br. 43-47. That is exactly the situation here. It misses the point to argue that vicarious liability cannot rest on infringement by "customers." Respondents' users are not simply customers, but are also *suppliers* of the copyrighted content

needed to draw additional users and expand the audience for the advertisements from which respondents profit.

Respondents also argue that they lack the "ability to control" their user-suppliers because their businesses do not use filters. But even apart from filtering, respondents possessed both the *right* under their contractual terms of service to control and terminate users, and the *ability* to do so by, among other things, using log-in servers. *Id.* at 10-11, 47. A finding of control here is straightforward because respondents had these means to control infringement, but disabled them. Respondents cannot tie their hands while continuing to enjoy the fruits of infringement.

Respondents' argument concerning filtering is also meritless. The *ability* to control can arise from readily available means of preventing infringement, especially where a business shuns those means to allow infringement to continue. The question is not what a defendant is doing but what it could do to prevent infringement. For example, if the store owner in *H.L. Green* had to hire an employee to "police carefully the conduct of its concessionaire," 316 F.2d at 308, the owner could not escape liability by failing to hire the needed personnel and then claiming an inability to control. Respondents are not in a different position merely because they exercise control with computers rather than employees. The Ninth Circuit's rule – *adopting* the means to prevent infringement gives rise to liability while *avoiding and disabling* such means confers immunity – turns the law's incentive structure upside down. MGM Br. 38-42, 48-49.[11]

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[11] The United States suggests there is no free-floating duty to adopt technologies to prevent infringement. U.S. Br. 19 n.3, 30 n.6. *But see id.* at 20-21. Petitioners do not advocate such a free-floating duty. The question of control arises only where the vicarious infringer has the necessary ongoing relationship with the direct infringer who supplies the copyrighted content.

Finally, commercially significant noninfringing uses do not preclude vicarious liability. *Id.* at 48. In *Dreamland* and *H.L. Green*, infringing works were the exception rather than the rule. *Sony-Betamax* did not disturb those rulings, but labeled them "manifestly just." 464 U.S. at 437 & n.18.

IV. The Court, Rather Than Congress, Should Decide In The First Instance Whether To Impose Liability.

There is no merit to respondents' suggestion that the serious harms respondents' services inflict should be remedied through legislation rather than the application of traditional principles of secondary copyright liability. On this score, respondents proceed from the false premise that *Sony-Betamax* conclusively settled the matter in their favor, and that reversing the Ninth Circuit would therefore expand the scope of secondary liability law. As demonstrated, that is wrong. *Supra* at 3-5. Imposing liability thus jeopardizes no "reliance interests protected by *stare decisis*." Resp. Br. 42; *see also supra* at 12-13. Petitioners seek to apply the traditional principles of secondary copyright liability embodied in *Sony-Betamax*, not expand them.

Thus, respondents' reliance on *Sony-Betamax*'s "reluctance" to expand the scope of copyright "without legislative guidance" is misplaced. *See* Resp. Br. 16 (quoting 464 U.S. at 431). Nothing in that decision or any other counsels against applying existing law to new circumstances. To the contrary, courts must apply existing copyright law "to new situations not anticipated by Congress, if, fairly construed, such situations come within its intent and meaning. . . . [Statutes] should not be so narrowly construed as to permit their evasion because of changing habits due to new inventions and discoveries." *Twentieth Century Music Corp. v. Aiken*, 422 U.S. 151, 159 (1975) (internal quotation marks omitted). The immunity respondents seek is precisely such an "evasion." In fact, it is respondents and their *amici*

who seek to change the law. They protest liability here on the ground that statutory remedies are too harsh, that they deserve a safe harbor like those in the DMCA, and that they would prefer a compulsory license scheme. Those are the arguments that should be addressed to Congress.

More fundamentally, respondents misconceive the relationship between the judiciary and Congress under both the copyright and the patent statutes. Until 1976, the Copyright Act lacked any definition of infringement. Congress left it to the courts to develop appropriate standards. Courts unanimously interpreted the statutory concept of infringement to encompass indirect infringement, elucidating that doctrine through a process of case-by-case analysis. *See, e.g., Gershwin Publ'g Corp. v. Columbia Artists Mgmt., Inc.*, 443 F.2d 1159, 1161 (2d Cir. 1971); *H.L. Green*, 316 F.2d at 307; *see also* Hatch-Leahy Br. 7-9; Menell Br. 4-9. *Sony-Betamax* itself stands firmly within this tradition – a tradition that, as even respondents concede (Resp. Br. 13), Congress has ratified.[12]

In this regard, indirect infringement is no different from other copyright and patent doctrines, such as fair use and the doctrine of equivalents, where Congress has authorized the courts to continue the "common-law tradition" of "case-by-case analysis," *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 577 (1994), and "presumes that rules will emerge from

[12] The 1976 Copyright Act ratified the judge-made doctrines of secondary liability. In the DMCA in 1998, Congress reaffirmed the primacy of the courts' role. S. Rep. No. 105-190, at 19 (1998) (noting that, "[r]ather than embarking upon a wholesale clarification of the[] doctrines," Congress "decided to leave current law in its evolving state and instead to create a series of 'safe harbors' for certain common activities of service providers"). Congress has modified judicial secondary liability standards in intellectual property law only in the 1952 Patent Act, by restoring the vitality of contributory infringement law following court decisions that had unacceptably reduced its scope. *See Dawson*, 448 U.S. at 187-97.

the course of decisions," *id.* at 596 (Kennedy, J., concurring); *see also Warner-Jenkinson*, 520 U.S. at 40 (leaving it to lower courts to refine test for equivalence "in the orderly course of case-by-case determination"); *cf. Business Elecs. Corp. v. Sharp Elecs. Corp.*, 485 U.S. 717, 732 (1988) (noting that Sherman Act "adopted the term 'restraint of trade' along with its dynamic potential," invoking "the common law itself").

This orderly process of case-by-case determination allows the law of indirect infringement to be applied sensibly to new circumstances, without forcing Congress to intervene with every advance in technology or change in business practices. Such an approach is far preferable to relying on the rigid approach of targeted legislation of the kind respondents' *amici* propose, which is not readily adaptable to changing circumstances and can thus quickly become an outmoded response to the problem spurring its enactment. That is doubtless why respondents can point to no instance in which Congress has legislated standards for secondary copyright liability. Congress has always left those standards to the courts, legislating only when creating *exceptions* to liability through safe harbors like those in the DMCA.

Finally, there is no merit to respondents' suggestion that the Court should leave liability to Congress because petitioners have not shown that they will suffer harm in the interim. As discussed in more detail at Songwriters Reply Br. 9-12, the harm to petitioners, those who work in the copyright industries, and the public as a whole is extensive, indisputable, and ongoing. Nor are suggestions that marketplace responses might eliminate these harms credible. Grokster and StreamCast, and their users, have no incentive to pay for what they can now copy for free.

CONCLUSION

The judgment of the Ninth Circuit should be reversed.

Respectfully submitted,

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